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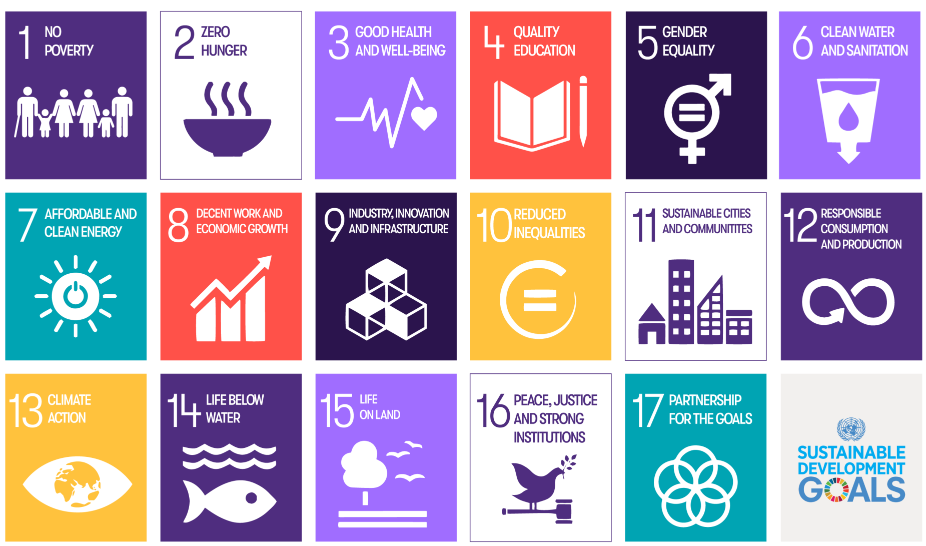
# ESG:
# Environmental, Social, and Governance

Environmental, social, and governance (ESG) has emerged as much more than an ecological responsibility subject. Environmental awareness has been around the neighborhood for over 60 years, but it wasn't until 2004 that ESG was widely promoted by the United Nations Organization (UN) with its report, "Who Cares Win". The report was the result of a joint initiative among financial institutions in nine (9) countries that had been invited by the United Nations to develop guidelines and recommendations on how to better integrate environmental, social, and corporate governance issues in asset management, securities brokerage services, and associated research functions.




*1UN Sustainable Development Goals (SDG)*

In 2015, the UN created the Sustainable Development Goals (SDG), which are a set of measurable targets that seek to achieve three overarching goals: end poverty and hunger, promote sustainable economic growth, and protect the environment all by 2030. The SDG provides a roadmap for an action plan to tackle inequality and other development challenges in different sectors including education, health, water, sanitation, energy, climate change, and more.

ESG is based on the United Nations Organization's seventeen (17) sustainability objectives.  While the SDG is a global set of goals, ESG encompasses a rating system used by organizations to measure how well the companies are performing in terms of its social, environmental, and governance responsibilities. ESG is an opportunity to build a more sustainable business and a key differentiator to enhance relevancy and trust with organization stakeholders.

ESG can mean different things to different companies and sectors.  Not all aspects will be relevant to the organization, it will depend on the industry in which the organization operates, its products and services, and its target customers.

**Environmental**

Habitat preservation & enhancement
Sustainability
Pollution
Carbon emssions
Water efficiency
Packaging
Energy management
Climate change
Waste management
Ecological impact

**Social**

Human capital management
Working conditions
Employee relations
Human rights
Labor standards
Community investment
Gender equality
Employee benefits
Health & safety
Diversity & inclusion

**Governance**

Corporate behaviour
Regulatory compliance
Data privacy
Board & executive oversight
Internal controls
Board independence
Business ethics
Executive compensation
Anti-corruption
Shareholder rights
Responsible marketing

Built strategically, an ESG program creates a valuable impact within your organization, your community, and the planet for years to come. Sustainability has become one of the reigning priorities in the mind of investors, especially young investors such as Millennials and Gen Zs, who are more interested in investing in profitable companies that target environmental and social goals.

In recent years, we have seen the development of a set of ESG reporting guidelines, frameworks, and even legislation, mostly in European nations. Frameworks provide principle-based guidance on how information is structured, how it is prepared, and what broad topics are covered. Standards provide specific, detailed, and replicable requirements for what should be reported for each topic, including metrics.

In Europe, the most common set of reporting standards used is the Global Reporting Initiative (GRI). Currently, there's a new proposal by the European Commission called the Corporate Sustainability Reporting Directive (CSRD), which requires more companies to report ESG topics. Another set of standards is the Sustainable Financial Disclosure Regulation (SFDR), whose objective is to promote transparency in sustainable investments. In 2011, the Sustainability Accounting Standards Board (SASB) was created to assist organizations and investors with reporting and disclosing the financial impact on sustainability.

Since all these guidelines have different objectives and requirements, there is a push to develop unified standards. In 2021, the International Financial Reporting Standards (IFRS) announced the development of global sustainability reporting standards. This resulted in the merging and integration of the SASB and the International Integrated Reporting Council (IIRC), sponsored by the IFRS Foundation, which resulted in the creation of the Value Reporting Foundation, which was officially created in June 2021.

When planning for ESG, reporting should start by setting short-term and long-term sustainable goals. This process should take into consideration the industry in which the organization operates, the environmental impact, and social and governance reach. Goals should be communicated to all components and stakeholders. Once goals are set, the organization should begin to gather information to create the ESG report. This has proven to be the most cumbersome process of ESG reporting as most of the information is non-financial information, which may not be readily available.

Developing a sustainability report can be challenging, as much of the information may be difficult to gather and the report must meet the requirements of the reporting methodology selected, in addition it needs to be aligned with your business strategy. Finally, and most importantly, companies need to determine how to communicate relevant information and what ESG information and indicators to report, in order to achieve meaningful goals that would meet the expectations of the new wave of sustainable conscious investors.

We are committed to keeping you updated on all developments that may affect the way you do business in Puerto Rico. Please contact us for assistance in relation to this or any other matter, we will be glad to assist you.

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